

CITY OF EAGLE BUTTE
EAGLE BUTTE, SOUTH DAKOTA

FINANCIAL STATEMENTS AND INDEPENDENT AUDITOR'S REPORT
DECEMBER 31, 2001

CITY OF EAGLE BUTTE

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INDEPENDENT AUDITOR'S REPORT

City Council
City of Eagle Butte
Eagle Butte, South Dakota

We have audited the accompanying general-purpose financial statements of the **CITY OF EAGLE BUTTE**, South Dakota (the City), as of and for the year ended December 31, 2001, as listed in the Table of Contents. These general-purpose financial statements are the responsibility of the City's management. Our responsibility is to express an opinion on these general-purpose financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinion.

In our opinion, the general-purpose financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of the **CITY OF EAGLE BUTTE**, South Dakota, as of December 31, 2001, and the results of its operations and the cash flows of its proprietary funds for the year ended December 31, 2001, in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued a report dated January 7, 2004, on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. This report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Our audit was performed for the purpose of forming an opinion on the 2001 financial statements of the City taken as a whole. The 2001 Schedule of Expenditures of Federal Awards as required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, is not a required part of the financial statements of the City. Such information has been subjected to the auditing procedures applied in the audits of the financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the general purpose financial statements taken as a whole.


KETEL THORSTENSON, LLP
Certified Public Accountants

January 7, 2004

		<u>Account Groups</u>				(Memoran-
		General	Enterprise	General	General	dum Only)
		<u>Fund</u>	<u>Funds</u>	<u>Fixed</u>	<u>Long-Term</u>	<u>Total</u>
				<u>Assets</u>	<u>Debt</u>	
LIABILITIES AND EQUITY:						
Current Liabilities:						
202	Accounts Payable	\$ 805	\$ -	\$ -	\$ -	\$ 805
204	Retirement Payable	-	3,840	-	-	3,840
216	Accrued Wages Payable	2,105	2,735	-	-	4,840
220	Customer Deposits	-	36,393	-	-	36,393
224	Deferred Revenue	22,130	-	-	-	22,130
Total Current Liabilities		25,040	42,968	-	-	68,008
Long-Term Liabilities:						
205	Note Payable - Golf Course (Note 3)	-	-	-	25,000	25,000
231	Bonds Payable (Note 3)	-	221,500	-	165,000	386,500
233	Accrued Leave Payable	-	2,213	-	3,092	5,305
Total Long-Term Liabilities		-	223,713	-	193,092	416,805
Fund Equity:						
245	Contributed Capital (Note 10)	-	678,652	-	-	678,652
246	Investment in General Fixed Assets	-	-	295,573	-	295,573
252	Unreserved Retained Earnings (Note 9)	-	568,282	-	-	568,282
Fund Balances:						
262.9	Undesignated	123,026	-	-	-	123,026
Total Equity		123,026	1,246,934	295,573	-	1,665,533

TOTAL LIABILITIES AND EQUITY	\$ 148,066	\$ 1,513,615	\$ 295,573	\$ 193,092	\$ 2,150,346
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The accompanying notes are an integral part of this statement.

CITY OF EAGLE BUTTE

**COMBINED STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCES
ALL GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2001**

		General Fund	Debt Service Fund
Revenue:			
310	Taxes	\$ 18,983	\$ -
320	Licenses and Permits	50	-
330	Intergovernmental Revenue	60,766	-
340	Charges for Goods and Services	766	-
350	Fines and Forfeits	11	-
361	Earnings on Deposits and Investments	10,839	-
362	Rentals	7,961	-
369	Other	3,492	-
Total Revenue		102,868	-
Expenditures:			
410	General Government	107,654	-
420	Public Safety	125,709	-
430	Public Works	89,976	-
440	Health and Welfare	430	-
450	Culture-Recreation	123,656	-
460	Conservation and Development	9,121	-
470	Debt Service	-	31,295
Total Expenditures		456,546	31,295
Other Financing Sources:			
391.1	Operating Transfers In	345,654	31,295
391.02	Bond Proceeds	25,000	-
		370,654	31,295
Excess of Revenue and Other Sources Over Expenditures and Other Uses		16,976	-
Fund Balance, December 31, 2000		106,050	-
FUND BALANCE, DECEMBER 31, 2001		\$ 123,026	\$ -

The accompanying notes are an integral part of this statement.

CITY OF EAGLE BUTTE

EXHIBIT III

COMBINED STATEMENT OF REVENUE, EXPENDITURES AND CHANGES
 IN FUND BALANCES - BUDGET TO ACTUAL
 GENERAL AND DEBT SERVICE FUND TYPES
 FOR THE YEAR ENDED DECEMBER 31, 2001

	----- General Fund -----			----- Debt Service Fund -----		
	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
Revenue:						
300 Taxes						
311 General Property Taxes	\$ 20,130	\$ 18,885	\$ (1,245)	\$ -	\$ -	\$ -
319 Penalties and Interest	-	98	98	-	-	-
320 Licenses and Permits	50	50	-	-	-	-
330 Intergovernmental Revenue						
331 Federal Revenue	54,960	42,814	(12,146)			
335 State Shared Revenue	14,600	16,991	2,391	-	-	-
338 County Shared Revenue	300	961	661	-	-	-
341 General Government	-	766	766	-	-	-
351 Fines	-	11	11			
360 Miscellaneous Revenue						
361 Earnings on Deposits and Investments	10,000	10,839	839	-	-	-
362 Rentals	3,500	7,961	4,461	-	-	-
369 Other	-	3,492	3,492	-	-	-
Total Revenue	103,540	102,868	(672)	-	-	-
Expenditures:						
410 General Government						
411 Legislative	48,000	24,594	23,406	-	-	-
412 Executive	7,700	7,185	515	-	-	-
413 Elections	1,100	178	922	-	-	-
414 Financial Administration	73,150	69,593	3,557	-	-	-
419 Other	31,500	6,104	25,396	-	-	-
420 Public Safety						
421 Police	120,910	111,139	9,771	-	-	-
422 Fire	16,000	14,570	1,430	-	-	-
431 Highways and Streets	115,950	89,976	25,974	-	-	-
441 Health	750	430	320	-	-	-
450 Culture-Recreation						
451 Golf Course	20,475	20,439	36	-	-	-
452 Parks	78,017	78,217	(200)	-	-	-
465 Economic Development	10,600	9,121	1,479	-	-	-
470 Debt Service	-	-	-	31,220	31,295	(75)
Total Expenditures	524,152	431,546	92,606	31,220	31,295	(75)
Other Financing Sources:						
391.1 Operating Transfers In (Out)	371,870	345,654	(26,216)	31,220	31,295	(75)
Excess of Revenue and Other Sources Over Expenditures and Other Uses	(48,742)	16,976	(65,718)	-	-	-
Fund Balance, December 31, 2000	106,050	106,050	106,050	-	-	-
Fund Balance, December 31, 2001	\$ 57,308	\$ 123,026	\$ 40,332	\$ -	\$ -	\$ -

The accompanying notes are an integral part of this statement.

Exhibit IV

CITY OF EAGLE BUTTE

**COMBINED STATEMENT OF REVENUE, EXPENSES
AND CHANGES IN RETAINED EARNINGS
ALL PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2001**

Operating Revenue:	
Charges for Goods and Services	\$ 1,491,270
Miscellaneous	53,595
Total Operating Revenue	1,544,865
Operating Expenses:	
Materials (Cost of Goods Sold)	979,048
Personal Services	179,661
Other Current Expenses	111,413
Depreciation	18,553
Total Operating Expenses	1,288,675
Operating Income	256,190
Nonoperating Income:	
Interest Earned	10,648
Income Before Operating Transfers	266,838
Operating Transfers Out	(376,948)
Net Loss	(110,110)
Retained Earnings, December 31, 2000	646,251
Prior Period Adjustment (Note 9)	32,141
Retained Earnings, December 31, 2000, Restated	678,392
RETAINED EARNINGS, DECEMBER 31, 2001	\$ 568,282

The accompanying notes are an integral part of this statement.

CITY OF EAGLE BUTTE

**COMBINED STATEMENT OF CASH FLOWS
ALL PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2001**

Cash Flows From Operating Activities:	
Operating Income	\$ 256,190
Adjustments to Reconcile Operating Income to	
Net Cash Provided by Operating Activities:	
Depreciation	18,553
Prior Period Adjustment	32,141
Increase in Receivables	(50,237)
Decrease in Inventory	13,542
Increase in Accrued Wages	302
Increase in Retirement Payable	3,840
Decrease in Vested Leave Liability	(411)
Decrease in Customer Deposits	(114)
Net Cash Flows Provided by Operating Activities	273,806
Cash Flows Used In Noncapital Financing Activities:	
Operating Transfers Out	(376,948)
Cash Flows From Capital and Related Financing Activities:	
Purchase of Fixed Assets	(890,839)
Proceeds from Sewer Utility Revenue Bonds	221,500
Contributed Capital	646,289
Net Cash Flows Provided by Capital Financing Activities	(23,050)
Cash Flows From Investing Activities:	
Interest Received	11,177
Decrease in Cash and Cash Equivalents During the Year	(115,015)
Cash and Cash Equivalents, December 31, 2000	468,903
Cash and Cash Equivalents, December 31, 2001	\$ 353,888

The accompanying notes are an integral part of this statement.

CITY OF EAGLE BUTTE

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2001

(1) Summary of Significant Accounting Policies

a. Reporting Entity

The funds and account groups included in this report are controlled by or dependent upon the governing board of the City of Eagle Butte (the City).

The accounting policies of the City conform to accounting principles generally accepted in the United States of America as applicable to governments.

b. Fund Accounting

The accounts are organized on the basis of funds and account groups, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenditures or expenses, as appropriate. Government resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled. In the financial statements in this report, the various funds are grouped into three generic fund types and two broad fund categories as follows:

Governmental Funds:

The General Fund is the general operating fund of the municipality. It is used to account for all financial resources except those required to be accounted for in another fund.

The Debt Service Fund is used to account for the accumulation of resources for, and the payment of, general long-term debt principal, interest, and related costs.

Proprietary Funds:

Enterprise Funds are used to account for operations a) that are financed and operated in a manner similar to private business enterprises, where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes. The liquor, water, and sewer funds are the enterprise funds maintained by the City.

The proprietary funds do not apply all FASB statements and interpretations issued after November 30, 1989.

c. Fixed Assets and Long-Term Liabilities

The City accounts for fixed assets used in governmental fund type operations (general fixed assets) in the general fixed assets account group, rather than in governmental funds. Public domain (infrastructure) general fixed assets consisting of certain improvements other than buildings, including bridges, curbs, gutters, streets, sidewalks, drainage systems, and lighting systems are not capitalized with other general fixed assets. No depreciation has been provided on general fixed assets.

All fixed assets are valued at historical cost. Donated fixed assets are valued at their estimated fair value on the date donated. Interest costs incurred during construction of fixed assets are capitalized along with other fixed asset costs.

CITY OF EAGLE BUTTE

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2001

(1) Summary of Significant Accounting Policies (Continued)

c. Fixed Assets and Long-Term Liabilities (Continued)

Depreciation of all exhaustible fixed assets used by propriety funds is charged as an expense against their operations. Accumulated depreciation is reported on the propriety fund balance sheet. Depreciation has been provided over the estimated useful lives using the straight-line method.

Long-term liabilities, expected to be financed from governmental funds, are accounted for in the general long-term debt account group, not in the governmental funds.

The two account groups are not "funds." They are concerned only with the measurement of financial position. They are not involved with measurement of results of operations.

d. Basis of Accounting

Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements.

All governmental funds are generally accounted for using the modified accrual basis of accounting. Their revenues are recognized when they become measurable and available. The revenues, which are accrued at December 31, 2001, are for interest receivable. Expenditures are generally recognized under the modified accrual basis of accounting when the related fund liability is incurred. Exceptions to this general rule include principal and interest on general long-term debt which is recognized when due.

All proprietary funds are accounted for using the accrual basis of accounting. Their revenues are recognized when they are earned, and their expenses are recognized when they are incurred. Unbilled utility accounts receivable are not included in the financial statements.

e. Budgets and Budgetary Accounting

The City follows these procedures in establishing the budgetary data reflected in the financial statements:

- 1) At the first regular board meeting in September of each year or within ten days thereafter, the governing board introduces the annual appropriation ordinance for the ensuing fiscal year.
- 2) After adoption by the governing board, the operating budget is legally binding and actual expenditures for each purpose cannot exceed the amounts budgeted, except as indicated in number 4.
- 3) A line item for contingencies may be included in the annual budget. Such a line item may not exceed five percent of the total municipal budget and may be transferred by resolution of the governing board to any other budget category that is deemed insufficient during the year.
- 4) If it is determined during the year that sufficient amounts have not been budgeted, state statute allows the adoption of supplemental budgets. There were no supplemental appropriations for 2001.
- 5) Unexpended appropriations lapse at year-end. The City does not use encumbrance accounting.
- 6) Formal budgetary integration is employed as a management control device during the year for the general fund, debt service fund, and capital projects funds.
- 7) Budgets for the governmental funds are adopted on a basis consistent with generally accepted accounting principles (GAAP).

CITY OF EAGLE BUTTE

NOTES TO FINANCIAL STATEMENTS (CONTINUED) DECEMBER 31, 2001

(1) Summary of Significant Accounting Policies (Continued)

f. Deposits and Investments

The City follows the practice of aggregating the cash assets of various funds to maximize cash management efficiency and returns. Various restrictions on deposits and investments are imposed by statutes. These restrictions are summarized below:

Deposits -- The City deposits are made in qualified public depositories as defined by SDCL 4-6A-1, 9-22-6, 9-22-6.1 and 9-22-6.2. Qualified depositories are required by SDCL 4-6A-3 to maintain at all times, segregated from their other assets, eligible collateral having a value equal to at least 110 percent of the public deposit accounts which exceed deposit insurance such as the FDIC and NCUA. In lieu of pledging eligible securities, a qualified public depository may furnish irrevocable standby letters of credit issued by federal home loan banks accompanied by written evidence of that bank's public debt rating which may not be less than "AA" or a qualified public depository may furnish a corporate surety bond of a corporation authorized to do business in South Dakota.

Deposits are reported at cost, plus interest, if the account is of the add-on type.

The City's policy is to credit all income from deposits to the fund making the investment.

The bank balance consisting of checking, savings, and certificates of deposit at December 31, 2001, are as follows:

Insured (FDIC/NCUA)	\$100,000
Uninsured, collateral jointly held by state's/municipality's agent <u>in the name of the state and the pledging financial institution.</u>	<u>628,062</u>
<u>Total Deposits</u>	<u>\$728,062</u>
 <u>Carrying Value</u>	 <u>\$452,324</u>

Investments -- In general, SDCL 4-5-6 permits municipal funds to be invested in (a) securities of the United States and securities guaranteed by the United States government either directly or indirectly; or (b) repurchase agreements fully collateralized by securities described in (a); or in shares of an open-ended, no-load fund administered by an investment company whose investments are in securities described in (a) and repurchase agreements described in (b). Also, SDCL 4-5-9 requires that investments shall be in the physical custody of the political subdivision or may be deposited in a safekeeping account with any bank or trust company designated by the political subdivision as its fiscal agent.

Investments are stated at fair value. The entity's investments, except for mutual funds, categorized to give an indication of the level of risk assumed by the entity at year-end. Category one includes investments that are insured or registered for which the securities are held by the entity or its agent in the entity's name. The investments of the City at December 31, 2001 consist of category one investments at **\$8,724**.

g. Inventory

Inventory is valued at the lower of cost or market. The cost valuation method is first-in, first-out. Inventory in the enterprise funds includes items to be sold in the liquor store.

h. Accumulated Unpaid Vacation and Sick Pay

Annual leave is earned by the employees at the rate of five hours for each biweekly pay period after a 90-day probationary period. Upon termination, employees are entitled to receive compensation for their accrued annual leave balance at their latest hourly rate. The financial statements report the annual leave liability. Sick leave is earned by the employees at the rate of 4 hours for each full biweekly pay period without limit. Upon separation from employment all unused sick leave will be forfeited.

CITY OF EAGLE BUTTE

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2001

(1) Summary of Significant Accounting Policies (Continued)

i. Deferred Revenue

Under the modified accrual basis of accounting, receivables may be measurable but not available. Available means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Receivables that are measurable but not available have been deferred. Reported deferred revenues are those where asset recognition criteria have been met but for which revenue recognition criteria have not been met. These are comprised primarily of property taxes.

j. Total Columns on Combined Balance Sheets

The total column on the Combined Balance Sheet is captioned "Memorandum Only" to indicate that it is presented only to facilitate financial analysis. Data in this column does not present financial position in conformity with accounting principles generally accepted in the United States of America. Neither is such data comparable to a consolidation. Inter-fund eliminations have not been made in the aggregation of this data.

k. Cash Flows

The City pools its cash resources for depositing and investing purposes. The proprietary funds essentially have access to their cash resources on demand. Accordingly, all reported deposit balances are considered to be cash equivalents for the purpose of the Statement of Cash Flows.

(2) Property Taxes

Property taxes attach as an enforceable lien on property as of January 1 of each year. Taxes are levied on or before October 1 and payable in two installments before April 30 and October 31 of the following year. The county bills and collects the taxes and remits them to the City.

The City is permitted by state statute to levy the following amounts of taxes per \$1,000 of taxable valuation of the property in the City:

General Fund	\$27
Bond Redemption Funds	Amounts Required by Bond Agreements
Judgment Fund (Upon Judgment Being Made)	\$10

State statute allows the tax rates to be raised by special election of the voters.

(3) Changes in General Fixed Assets

A summary of changes in general fixed assets for the year ended December 31, 2001, is as follows:

	Balance 12/31/2000	Additions	Deletions	Balance 12/31/2001
Land	\$ 1,562	\$ -	\$ -	\$ 1,562
Building	1,563	36,044	-	37,607
Other Improvements	-	69,572	-	69,572
Equipment	160,338	26,494	-	186,832
Total	\$ 163,463	\$ 132,110	\$ -	\$ 295,573

CITY OF EAGLE BUTTE

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2001

(3) Long-Term Debt

The following is a summary of the long-term debt transactions for the year ended December 31, 2001:

	General Obligation	Compensated Absences	Sewer Utility Revenue Bonds	Note Payable - Golf Course	Total
Long-Term Debt -- 12/31/00	\$ 185,000	\$ 4,152	\$ -	\$ -	\$ 189,152
Borrowings	-	-	221,500	25,000	246,500
Retired	(20,000)	-	-	-	(20,000)
Changes in Compensated Absences	-	1,153	-	-	1,153
Long-Term Debt -- 12/31/01	<u>\$ 165,000</u>	<u>\$ 5,305</u>	<u>\$ 221,500</u>	<u>\$ 25,000</u>	<u>\$ 416,805</u>

Long-term debt payable at December 31, 2001, is comprised of the following:

General Obligation Bonds:

Street bonds, Series 1994, mature January 1, 2009, with interest increasing from 5.50 percent to 6.40 percent at maturity. Payments are made out of the debt service fund.

\$165,000

Sewer Utility Revenue Bonds:

Sewer bonds, mature July 17, 2041, with an interest rate of 4.5 percent payable on the first two anniversary dates and then payable in monthly installments of \$1,017 beginning August 17, 2003. Payments are made out of the sewer fund. Sewer fund revenues are pledged as security.

\$221,500

Note Payable – Golf Course

The Note Payable – Golf Course, matures January 2010, with an interest rate of 3.46 percent payable in annual payments of \$3,000. Payments are made out of the general fund.

\$ 25,000

The annual requirements to amortize long-term debt outstanding as of December 31, 2001, except for compensated absences, are as follows:

	----GO Bonds----		----Sewer Bonds----		--Note Payable - GC--		-----Total-----	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2002	\$ -	\$ 5,050	\$ -	\$ -	\$ 2,608	\$ 392	\$ 2,608	\$ 5,442
2003	20,000	9,525	939	4,146	2,649	351	23,588	14,022
2004	20,000	8,360	2,326	9,878	2,691	310	25,017	18,548
2005	20,000	7,170	2,433	9,771	2,733	267	25,166	17,208
2006	25,000	5,808	2,545	9,659	2,776	224	30,321	15,691
Thereafter	80,000	7,939	213,257	205,748	11,543	456	304,800	214,143
	<u>\$ 165,000</u>	<u>\$ 43,852</u>	<u>\$ 221,500</u>	<u>\$ 239,202</u>	<u>\$ 25,000</u>	<u>\$ 2,000</u>	<u>\$ 411,500</u>	<u>\$ 285,054</u>

Principle and interest due January 1, 2002 totaling \$25,610 was paid December 31, 2001 and was included in debt service expense for 2001.

CITY OF EAGLE BUTTE

NOTES TO FINANCIAL STATEMENTS (CONTINUED) DECEMBER 31, 2001

(4) Risk Management

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During the period ended December 31, 2001, the City managed its risks as follows:

Employee Health Insurance:

The City purchases health insurance for its employees from a commercial insurance carrier.

Liability and Property Insurance:

The City joined the South Dakota Public Assurance Alliance, a public entity risk pool currently operating as a common risk management and insurance program for South Dakota local government entities. The City pays an annual premium to the pool to provide coverage for general liability, public official's liability, and property coverage.

The agreement with the South Dakota Public Assurance Alliance provides that the above coverages will be provided to a \$1,000,000 limit. Member premiums are used by the pool for payment of claims and to pay for reinsurance for claims in excess of \$250,000 to the upper limit. The City carries a \$500 deductible for the public officials and property coverages.

The City does not carry additional insurance to cover claims in excess of the upper limit. Settled claims resulting from these risks have never exceeded the liability coverage.

Workmen's Compensation:

The City purchases liability insurance for workmen's compensation from a commercial carrier.

Unemployment Benefits:

The municipality has elected to be self-insured and retain all risk for liabilities resulting from claims for unemployment benefits.

The municipality has not reserved equity for the payment of future unemployment benefits.

During the year ended December 31, 2001, no claims for unemployment benefits were paid, and none are anticipated in the next fiscal year.

(5) Lease Agreement

In August 2000, the City signed a lease agreement with Lakeside Golf Association whereby the City leased the golf course to the Association. The lease term is set at twenty years, and no rent is charged in conjunction with this lease.

(6) Disaggregated Receivables

Enterprise Funds' receivables consist of \$121,770 owed to the City by municipal residents for water and sewer services rendered, \$33,871 due from grant draw requests, and \$377 of other receivables.

CITY OF EAGLE BUTTE

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2001

(7) Segment Information for Proprietary Funds

The City maintains Enterprise funds, which provide services financed by user charges. Segment information as of December 31, 2001, and for the year ended December 31, 2001 is as follows:

	<u>Liquor</u>	<u>Water</u>	<u>Sewer</u>	<u>Total</u>
Operating Revenue	\$ 843,079	\$ 498,634	\$ 203,152	\$ 1,544,865
Depreciation	124	12,717	5,712	18,553
Other	755,946	459,499	54,677	1,270,122
Total Operating Expenses	756,070	472,216	60,389	1,288,675
Operating Income	87,009	26,418	142,763	256,190
Operating Transfers Out	(185,941)	(78,190)	(112,817)	(376,948)
Net Nonoperating Revenue	5,186	4,891	571	10,648
Net Income (Loss)	\$ (93,746)	\$ (46,881)	\$ 30,517	\$ (110,110)
Contributed Capital	\$ -	\$ -	\$ 646,289	\$ 646,289
Fixed Asset Additions	\$ -	\$ 10,125	\$ 880,714	\$ 890,839
Net Working Capital	\$ 158,918	\$ 183,818	\$ 126,125	\$ 468,861
Bonds and Other Long-Term Liabilities Outstanding, Payable From Operating Revenue	\$ 1,067	\$ 1,110	\$ 221,536	\$ 223,713
Total Assets	\$ 164,205	\$ 287,130	\$ 1,062,280	\$ 1,513,615
Total Liabilities	5,789	38,697	222,195	266,681
Fund Equity	\$ 158,416	\$ 248,433	\$ 840,085	\$ 1,246,934

(8) Municipal Officials

As of December 31, 2001, municipal officials included the following:

Mayor
John Bachman

Council Members
Verzella LaPlante
Dale McCrea
Harley Morgan
Dennis Neigel
Thelma Peacock
Wanda Lind

Finance Officer
Sheila Ganje

CITY OF EAGLE BUTTE

NOTES TO FINANCIAL STATEMENTS (CONCLUDED)
DECEMBER 31, 2001

(9) Prior Period Adjustments

A prior period adjustment was made in the Enterprise Funds to record fixed assets at December 31, 2000. The Enterprise Funds were also adjusted for estimated accumulated depreciation. The Water Fund's fixed assets were recorded at \$24,472 with accumulated depreciation of \$18,109; the net effect to retained earnings was a \$6,362 increase. In the Sewer Fund, fixed assets were recorded at \$25,779 with no accumulated depreciation.

(10) Contributed Capital

Contributed capital consists of the following at December 31, 2001:

U.S. Department of Agriculture Grant - 2001	\$ 646,289
Federal Emergency Management Agency (FEMA) - Prior Year	32,363
	<u>\$ 678,652</u>

SUPPLEMENTARY INFORMATION

CITY OF EAGLE BUTTE

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
DECEMBER 31, 2001**

The recommendation from the prior audit regarding segregation of duties for non-utility revenue (prior year finding #2) was implemented during the current audit period. The recommendation from the prior year audit regarding liquor operation (prior year finding #1) has been restated on the accompanying Schedule of Findings, Questioned Costs, and Corrective Action Plan, Part B as Finding 01-1, Liquor Operations.

CITY OF EAGLE BUTTE

SCHEDULE OF FINDINGS, QUESTIONED COSTS, AND CORRECTIVE ACTION PLAN DECEMBER 31, 2001

A. SUMMARY OF AUDIT RESULTS

1. The auditors' report expresses an unqualified opinion on the financial statements of the City of Eagle Butte (the City).
2. Two reportable conditions disclosed during the audit of the financial statements are reported in the Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of General-Purpose Financial Statements Performed in Accordance with Government Auditing Standards. These conditions are not reported as material weaknesses.
3. No instances of noncompliance material to the financial statements of the City were disclosed during the audit.
4. One reportable condition relating to the audit of the major federal award program was reported in the Report on Compliance with Requirements Applicable to Each Major Program and Internal Control over Compliance in Accordance with OMB Circular A-133.
5. The auditors' report on compliance for the major federal award program for the City expresses a qualified opinion.
6. There was one audit finding relative to the major federal award program.
7. The program tested as a major program is the Water and Waste Disposal Systems for Rural Communities, CFDA # 10.760.
8. The threshold for distinguishing Type A and B programs was \$300,000.
9. The City was determined to be a high-risk auditee.

B. FINDINGS -- FINANCIAL STATEMENT AUDIT

Reportable Conditions -- Not Material Weaknesses in Internal Control

01-1. Liquor Operations

Finding: Due to the small number of personnel at the liquor store, it is difficult to have an ideal system of internal control.

Analysis: Because the liquor fund is the biggest revenue-generating operation of the City, it should be monitored more closely to preserve the profits of the enterprise fund.

Recommendation: We recommend a daily review of cash register written reconciliations for the liquor store, which includes reviewing the cash register tapes, to verify the proper revenue amounts, voided transactions, and proper handling of cash. We also recommend someone from the City observe the quarterly inventory count and test the markup calculation to verify the proper sales price. The City could consider purchasing a software system to track the inventory and sales on a daily basis. The software would help eliminate human error when preparing inventory reports, and it would expedite the inventory process on a monthly basis. The Finance Officer, Mayor, and Council should continue to monitor the overall operations of the liquor store.

CITY OF EAGLE BUTTE

**SCHEDULE OF FINDINGS, QUESTIONED COSTS, AND CORRECTIVE ACTION PLAN (CONTINUED)
DECEMBER 31, 2001**

B. FINDINGS -- FINANCIAL STATEMENT AUDIT (CONTINUED)

Reportable Conditions -- Not Material Weaknesses in Internal Control (Continued)

01-2. Bank Reconciliation/Timely Deposits

Finding: The City's December 31, 2001 bank reconciliation did not match the general ledger. We also noted that bank deposits were held for an extended period of time.

Analysis: Monthly bank reconciliations may be completed at the statement date, which may differ from month end. However, at December 31 of each year a bank reconciliation should be prepared to correspond to the year-end financial statements. Cash that is not deposited on a regular basis is more susceptible to theft.

Recommendation: The City needs to prepare a bank reconciliation at December 31 each year that agrees to the general ledger. Any cash received should be deposited on a regular timely basis to reduce the possibility of theft.

C. FINDINGS AND QUESTIONED COSTS -- MAJOR FEDERAL AWARD PROGRAM AUDIT

01-3. Single Audit Filing

Finding: The City did not submit its single audit reporting package by the end of the ninth month following the end of the fiscal year being audited in accordance with OMB Circular A-133 requirements.

Analysis: The reporting package should have been filed by September 30, 2002, or an extension should have been received from the Department of Agriculture.

Recommendation: The City needs to ensure in the future, if an A-133 audit is required, that its reporting package is filed timely or a proper extension is obtained, if needed.

CITY OF EAGLE BUTTE

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2001**

	CFDA Numbers	Amount
<i>U.S. Department of Agriculture</i>		
Direct Federal Funding:		
Water and Waste Disposal Systems for Rural Communities (Notes 1 and 2)	10.760	\$ 867,789
Total U.S. Department of Agriculture		867,789
 <i>U.S. Department of Justice</i>		
Direct Federal Funding:		
Public Safety Partnership and Community Policing Grant	16.710	41,937
Bulletproof Vest Partnership Program	16.607	877
		42,814
 <i>General Services Administration</i>		
Pass-Through the S.D. Federal Property Agency:		
Donation of Federal Surplus Property	39.003	2,708
Total General Services Administration		2,708
 Total		\$ 913,311

Note 1: This represents a major federal award program.

Note 2: Of this amount, \$221,500 is in the form of revenue bonds reflected as a liability in the financial statements (See Note 3 to the financial statements).



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REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

City Council
City of Eagle Butte
Eagle Butte, South Dakota

We have audited the statements of the **CITY OF EAGLE BUTTE**, South Dakota (the City), as of and for the year ended December 31, 2001, and have issued our report thereon dated January 7, 2004. We have expressed an unqualified opinion on these statements. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the City's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. The reportable condition is described in the Current Audit Findings and Recommendations as items #01-1 and #01-2.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe the reportable conditions described above are not material weaknesses.

City Council
City of Eagle Butte
Page Two

This report is intended solely for the information and use of the Department of Agriculture, the South Dakota Legislature, the governing board and management of the District and is not intended to be and should not be used by anyone other than these specified parties. However, as required by South Dakota Codified Law 4-11-11 this report is a matter of public record and its distribution is not limited.

KETEL THORSTENSON, LLP
Certified Public Accountants

January 7, 2004



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REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

City Council
City of Eagle Butte
Eagle Butte, South Dakota

Compliance

We have audited the compliance of the **CITY OF EAGLE BUTTE** (the City), with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to its major federal program for the year ended December 31, 2001. The City's major federal program is identified in the summary of audit results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to its major federal program is the responsibility of the City's management. Our responsibility is to express an opinion on the City's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on major federal programs occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures, as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the City's compliance with those requirements.

In our opinion, the City complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended December 31, 2001, except for the reportable condition described in the Schedule of Findings, Questioned Costs, and Corrective Action Plan as # 01-3.

Internal Control over Compliance

The management of the City is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the City's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

We noted certain matters involving the internal control over compliance and its operations that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect the District's ability to administer a major federal program in accordance with applicable requirements of laws, regulations, contracts, and grants. The reportable condition is described in the accompanying Schedule of Findings and Questioned Costs and Corrective Action Plan as Part B, Finding #01-3.

City Council
City of Eagle Butte
Page Two

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions, and accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe the reportable condition described above is not a material weakness.

This report is intended solely for the information and use of the Department of Agriculture, the South Dakota Legislature, the governing board and management of the City and is not intended to be and should not be used by anyone other than these specified parties. However, as required by South Dakota Codified Law 4-11-11 this report is matter of public record, and its distribution is not limited.

KETEL THORSTENSON, LLP
Certified Public Accountants

January 7, 2004